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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 7, 2003

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

CASE NO. PUE-2000-00550

Ex Parte: In the matter concerning the application of Appalachian Power Company d/b/a American Electric Power – Virginia for approval of a plan to transfer functional and operational control of certain transmission facilities to a regional transmission entity

ORDER FOR NOTICE

On December 19, 2002, Appalachian Power Company d/b/a American Electric Power-Virginia ("AEP-VA" or "Company") filed with the State Corporation Commission ("Commission") a Substitute Application ("Application") in this proceeding requesting approval to transfer functional and operational control of its transmission facilities to a regional transmission entity ("RTE").

Sections 56-577 and 56-579 of the Virginia Electric Utility Restructuring Act (the "Restructuring Act"), Chapter 23 (§56-576 et seq.) of Title 56 of the Code of Virginia ("Code"), require Virginia's incumbent electric utilities to join or to establish RTEs by January 1, 2001, and to seek authorization from the Commission to transfer the management and control of their transmission assets to such RTEs.

Specifically, § 56-577 A of the Restructuring Act states in pertinent part that:

[O]n or before January 1, 2001, each incumbent electric utility owning, operating, controlling, or having an entitlement to transmission capacity shall join or establish a regional transmission

entity, which entity may be an independent system operator, to which such utility shall transfer the management and control of its transmission system, subject to the provisions of § 56-579.

Section 56-579 A 1 of the Restructuring Act provides in pertinent part that:

[N]o such incumbent electric utility shall transfer to any person any ownership or control of, or any responsibility to operate, any portion of any transmission system located in the Commonwealth without obtaining the prior approval of the Commission, as hereinafter provided.

Pursuant to the Restructuring Act, the Commission developed and established rules and regulations under which incumbent electric utilities owning, operating, controlling, or having an entitlement to transmission capacity within the Commonwealth may transfer all or part of such control, ownership, or responsibility to an RTE, 20 VAC 5-320-10 et seq. (the "RTE Rules").¹ The RTE Rules establish elements of an RTE structure essential to the public interest, which elements are to be considered by the Commission in determining whether to authorize transfer of control of incumbent electric utilities' transmission assets to RTEs. The RTE Rules require the examination of, among other things, an RTE's reliability practices, pricing and access policies, and independent governance. The Application, therefore, must be considered pursuant to the directives set forth in the Restructuring Act and must comply with the RTE Rules.

AEP-VA now seeks approval of the transfer of control of its transmission facilities to PJM Interconnection, LLC ("PJM"), an existing regional transmission organization ("RTO")²

¹ Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: In the matter concerning participation of incumbent electric utilities in regional transmission entities, Case No. PUE-1999-00349, 2000 S.C.C. Ann. Rept. 430.

² The phrases Regional Transmission Entity or RTE and Regional Transmission Organization or RTO may be used interchangeably.

with day-ahead and real-time markets for energy³ and ancillary services.⁴ The history of this proceeding is extensive. The Company filed with the Commission its original application to join an RTE on October 16, 2000. Since AEP-VA's original application was filed with the Commission, numerous significant events have occurred both at the state and federal level. These events have resulted in delays in the approval of the transfer of the transmission systems of both AEP-VA and Virginia Electric and Power Company d/b/a Dominion Virginia Power ("Dominion Virginia Power") to an RTE.

The Company's original application in this matter sought approval from this Commission to transfer the operational and functional control of its transmission facilities to the Alliance RTO, an RTO that was to be created pursuant to federal regulations issued by the Federal Energy Regulatory Commission ("FERC").⁵ The FERC issued a number of rulings in the Alliance RTO proceedings. On July 27, 2001, this Commission issued an order suspending the procedural schedule originally established in this proceeding based on anticipated filings by the Alliance Companies at the FERC related to the Alliance RTO proposal and in the interest of conserving

³ PJM's energy market, which also serves as the basis for PJM's congestion management system, utilizes Locational Marginal Pricing ("LMP"). The institution of LMP may have implications for fuel and purchased power costs for customers served by the Company.

⁴ PJM currently is composed of the following transmission owners: Allegheny Electric Cooperative, Inc.; Allegheny Power System; Atlantic City Electric Company; Baltimore Gas & Electric Company; Delmarva Power & Light Company; Jersey Central Power & Light Company; Metropolitan Edison Company; PECO Energy Company; Pennsylvania Electric Company; PPL Electric Utilities Corporation; Potomac Electric Power Company; Public Service Electric & Gas Company; and UGI Utilities Inc. These transmission owning companies provide service in the states of Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and West Virginia and in the District of Columbia.

⁵ Alliance Companies, et al., Docket Nos. ER99-3144-003, ER99-3144-004 and ER99-3144-005. The proposed Alliance RTO was to consist of the following member companies: American Electric Power Service Corporation; Consumers Energy Company; Commonwealth Edison Company ("ComEd"); The Dayton Power and Light Company ("Dayton Power"); The Detroit Edison Company; FirstEnergy Corp. on behalf of The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, and the Toledo Edison Company; the Northern Indiana Public Service Company; and Dominion Virginia Power (collectively the "Alliance Companies"). The proposed Alliance RTO was to include incumbent electric utilities who provide service in the states of Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio, Pennsylvania, North Carolina, Tennessee, Virginia, and West Virginia.

legal and regulatory resources.⁶ After over two years of consideration, including an initial ruling conditionally approving the Alliance RTO, the FERC disapproved the Alliance RTO on December 20, 2001, and dismissed in whole the Alliance Companies' proposal.⁷ On January 29, 2002, in light of the FERC's ruling dismissing the Alliance RTO proposal, this Commission issued an order denying a motion by Dominion Virginia Power, subsequently adopted by AEP-VA, to reestablish a procedural schedule in the RTE dockets.

On April 25, 2002, the FERC issued an order directing the Alliance Companies to make compliance filings identifying which RTO they planed to join and stating whether their participation would be collective or individual.⁸ On May 28, 2002, American Electric Power Corporation ("AEP") made a compliance filing on behalf of its operating companies.⁹ In its filing, AEP stated that it had entered into a Memorandum of Understanding with PJM on May 7, 2002, indicating its intent to participate in PJM either individually or in conjunction with other

⁶ This order was in response to a Staff motion and with the concurrence of Dominion Virginia Power.

⁷ Alliance Companies, et al., 97 FERC ¶ 61, 327 (2001). In its Order dismissing the Alliance application, the FERC found the proposed Alliance did not comply with key requirements of the FERC's Order 2000.

⁸ Alliance Companies, et al., 99 FERC ¶ 61,105 (2002)

⁹ Alliance Companies, et al., Docket No. EL02-65-005. AEP's operating companies include Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company. The other Alliance Companies made compliance filings on or about May 28, 2002, as well.

Alliance Companies.¹⁰ On July 31, 2002, the FERC issued an order conditionally accepting AEP's choice to join PJM.¹¹

Significantly, also on July 31, 2002, the FERC issued a proposal to establish a national Standard Market Design ("SMD") for wholesale electricity markets ("SMD NOPR").¹² The SMD NOPR requires, among other things, all public utilities to turn over the operation of their transmission facilities to an Independent Transmission Provider ("ITP").¹³

AEP took no further formal action to join an RTE until December 3, 2002, when it filed an application at the FERC requesting its transmission rates be increased at the time it joins PJM ("AEP Transmission Rate Filing").¹⁴ Then, on December 11, 2002, AEP, on behalf of its operating companies and in conjunction with ComEd, Dayton Power, Dominion Virginia Power, and PJM, filed a request with the FERC asking that certain companies be allowed to participate in PJM as transmission owners ("PJM Expansion Filing").¹⁵ The request further asked that

¹⁰ To supplement its May 28, 2002, filing, on June 25, 2002, in Alliance Companies, et al., Docket No. EL02-65-008, AEP, ComEd, and Illinois Power Company (collectively, the "participants in the ITC"), filed a Memorandum of Understanding among and between PJM, National Grid, and the participants in the ITC. On July 15, 2002, in Alliance Companies, et al., Docket No. EL02-65-007 and RT01-88-021, the participants in the ITC, Dayton Power, and Dominion Virginia Power filed an update stating their intent to finalize their agreements to operate collectively or individually under PJM and requesting the FERC to immediately affirm their decisions to join PJM.

¹¹ Alliance Companies, et al., 100 FERC ¶ 61,137 (2002).

¹² Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design, Notice of Proposed Rulemaking, 67 Fed. Reg. 55452 (2002) (to be codified at 18 C.F.R. pt. 35) (proposed July 31, 2002). Virginia Code § 56-579 C provides that the Commission, to the fullest extent permitted, shall participate in FERC proceedings concerning RTEs. Pursuant to those statutory obligations, on January 31, 2003, this Commission filed comments on the SMD NOPR.

¹³ The SMD NOPR would require all public utilities that own, control, or operate facilities used for the transmission of electric energy in interstate commerce to: (1) meet the definition of an ITP itself; (2) turn over the operation of its transmission facilities to an RTO that is an ITP; or (3) contract with an ITP to operate the utility's transmission facilities. The FERC expects that most, if not all, public utilities will become members of RTOs.

¹⁴ American Electric Power Service Corporation, Docket No. ER03-242-000.

¹⁵ New PJM Companies and PJM Interconnection, L.L.C., Docket Nos. ER03-262-000 and ER01-262-001. AEP, Commonwealth Edison, and Dayton Power seek approval to participate in PJM as transmission owners. Dominion Virginia Power does not seek to participate in PJM as a transmission owner in the December 11, 2002 filing.

PJM's transmission owners agreements, Operating Agreement, and Open Access Transmission Tariff ("OATT") be modified accordingly.¹⁶

As stated above, AEP-VA filed its current Application in this proceeding for approval to participate in PJM with this Commission on December 19, 2002. On December 20, 2002, the FERC issued a ruling on PJM's application at the FERC for RTO status ("PJM RTO Filing") granting PJM full RTO status subject to the satisfaction of certain conditions.¹⁷

NOW UPON CONSIDERATION of this matter, the Commission is of the opinion and finds that AEP-VA should be granted leave to file its Application for our consideration. The Application is accepted in lieu of the Company's previous request to transfer control of its transmission facilities to the Alliance RTO filed on October 16, 2000.

We find that the Company's Application must be considered in the context of the FERC's SMD NOPR . Any final rule issued in the SMD proceeding could directly affect the structure and operations of PJM. Moreover, the FERC in its SMD NOPR asserts expansive jurisdiction over both the transmission *and* generation of electricity. As envisioned by the FERC, ITPs will not only control and operate transmission assets, but will also administer day-ahead and real-time energy and ancillary services markets which will utilize LMP. Thus, the SMD NOPR has far-reaching jurisdictional implications, and the potential to profoundly alter the nature of electricity regulation on the federal and state levels.

The sweeping assertions of federal jurisdiction in the SMD NOPR trigger significant state-federal jurisdictional issues that may find—at least from the FERC's perspective—their

¹⁶ The FERC provided that interested parties could file comments to the filing on or before January 17, 2003. The Commission is currently participating and has filed comments in both the pending AEP Rate Filing and the PJM Expansion Filing as they are related to AEP-VA's request to transfer its transmission system to PJM.

¹⁷ PJM Interconnection, L.L.C., et al., 101 FERC ¶ 61,345 (2002).

preliminary resolution in any final rule adopted by FERC in the SMD proceeding. How the FERC's final SMD rule affects Virginia's requirement in § 56-579 of the Code that incumbent electric utilities' transfer their transmission assets to an RTE *subject to the approval of this Commission* will be of significant importance to this Commission in determining how best to proceed in its review of AEP-VA's Application. Thus, this Commission cannot fully consider the Application and make a final determination on its merits until the FERC has issued a final SMD rule, and its impact on PJM operations can be evaluated.

We would also note that the General Assembly has recently acted in its 2003 legislative session to approve House Bill 2453. That bill, inter alia, prohibits Virginia's incumbent electric utilities from transferring the control and management of their transmission assets to a regional transmission entity prior to July 1, 2004. In the meantime, of course, House Bill 2453 does not prohibit this Commission from docketing and reviewing (or continuing to review, in the case of those applications already on file at the Commission) incumbent utilities' RTE filings.

Accordingly, we will deny AEP-VA's request for expedited consideration. The pending status of the SMD NOPR, the General Assembly's 2003 enactment of House Bill 2453, the numerous and complex issues to be addressed, and the public interest implications of the Application do not afford us the option of granting expedited treatment.

In order to move forward as promptly as possible in the meantime, however, we now direct AEP-VA to give notice of its Application to the public as prescribed herein, give interested persons an opportunity to file a notice of participation in this proceeding, and provide the parties and the Staff with the opportunity to issue discovery requests.¹⁸ As discussed further herein, we deny AEP-VA's request for waiver of 20 VAC 5-320-10 11 of the RTE Rules for any pleadings

¹⁸ Those individuals who have filed, pursuant to our April 13, 2001, Order issued in this matter, the requisite notice to participate establishing them as parties to this proceeding do not have to re-file their notice.

filed with, and orders issued by, the FERC in the PJM Expansion Filing based on our findings in this Order, and the bearing such information may have on the Company's PJM proceedings and our consideration of its Application. In addition, we grant in part AEP-VA's request for a waiver of 5 VAC 5-20-150 of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 et seq. ("Procedural Rules"), to the extent that such rule may require the filing of standard size paper copies of the documents included in Appendix C contained on the compact disc ("CD") accompanying the Application.

We intend to move forward on our investigation of the Application. As discussed in further detail below, we require AEP-VA to file on or before April 15, 2003, supplemental information regarding the PJM Expansion Filing and required compliance with the RTE Rules. We must, however, wait to consider the Application fully until a final rule is issued in the SMD proceeding. We would note that the FERC has stated its intent to move swiftly on issuance of a final SMD rule. According to reports in recent trade publications, FERC Chairman Pat Wood has stated that the FERC may issue its final SMD rule as early as July 2003. As provided herein, we direct AEP-VA to supplement its Application with regard to issues that will be impacted by the SMD. The Company shall file such supplement as soon as practicable, but no later than 90 days, after the FERC has issued a final SMD rule. As promptly as possible consistent with due process, we will then establish a complete procedural schedule.

April 15, 2003, Supplemental Filing

We first turn to the impact of the pending PJM Expansion Filing on this Application. The proposed change to the structure and operations of PJM under the PJM Expansion Filing will impact AEP-VA's participation in PJM, and consequently, this Commission's consideration of the Application. Accordingly, we direct the Company to make certain filings as described

herein relative to the pending proceedings at the FERC involving AEP's request to become a member of PJM. We direct the Company to supplement its Application with respect to these matters on or before April 15, 2003, as follows.

As indicated above, on December 20, 2002, the FERC issued in the PJM RTO Filing a ruling granting PJM full RTO status subject to the satisfaction of certain conditions. The FERC found that PJM has sufficient scope and configuration and independence to be an RTO, but expressed continuing concerns about issues such as transmission planning and expansion and interregional coordination. Consequently, the FERC directed PJM to make compliance filings within 90 days of the date of its order to: (1) more fully explain how its planning process will identify expansions that are needed to support competition; (2) make further revisions to Schedule 6 of its Operating Agreement; (3) provide a report setting forth its progress in seeking to eliminate seams problems with the Midwest Independent System Operator, as well as with the neighboring regions to the North and the South; and (4) address its practice regarding Capacity Benefit Margin ("CBM") and its progress in harmonizing CBM rules among the different reliability regions.

In its December 20, 2002, order, the FERC further noted that PJM has made other filings, such as its filings to revise its Emergency Load Response Program, to institute an Economic Load Response Program, and to revise various aspects of PJM's tariff, that the FERC did not address in that ruling. The FERC indicated that the existing tariff sheets filed by PJM do not reflect the actual RTO tariff under which PJM will operate. The FERC therefore directed PJM to file its OATT, Reliability Assurance Agreement, and Operating Agreement, within 90 days of the December 20, 2002, order, to reflect the conditions under which it will operate the RTO.

We require the Company to file with this Commission on or before April 15, 2003, one hard copy of all of the above compliance filings and tariff filings required by the FERC in the FERC's December 20, 2002, order in the PJM RTO Filing. We further direct AEP-VA to address the impact of these filings required by the FERC relative to its request to become a member of PJM through a supplemental filing to its Application on or before April 15, 2003.

Filings on behalf of AEP or PJM or related orders issued by the FERC in *any* FERC docket to revise PJM's structure, processes, and practices could have an effect on AEP-VA's proposal to transfer its transmission system to PJM.¹⁹ Therefore, we direct the Company to file with this Commission one hard copy, in lieu of the fifteen copies required under the Procedural Rules, of any such filings or orders filed or issued after December 20, 2002, and to provide a supplement to its Application addressing the impact of the filings or orders on the Company's proposed participation in PJM. Those filings made and orders issued prior to the date of this Order, along with a supplement to the Application, shall be filed with the Commission on or before April 15, 2003. Those documents filed or issued after the date of this Order and a supplement to the Application shall be filed with the Commission within 7 days of their submission to, or issuance by, the FERC.

Next, we address the Application with regard to its required compliance with the RTE Rules. We find in our initial review of the Application and its compliance with the RTE Rules, that the Application fails to address the issue of acquisition of control of transmission facilities from transmission-owning or prospective transmission-owning members of PJM, as required by 20 VAC 5-320-100 4 g and h of the RTE Rules. In addition, the Application does not provide a

¹⁹ These dockets include the PJM RTO Filing, the PJM Expansion Filing, any filing seeking changes to the PJM Reliability Assurance Agreement, the AEP Transmission Rate Filing, and any other that would impact the Company's proposed membership in PJM.

detailed description of the Company's facilities that will be subject to PJM's control as required by 20 VAC 5-320-100 9 of the RTE Rules. Therefore, we require AEP-VA to supplement its Application to provide the information required by the RTE Rules, as detailed above, on or before April 15, 2003.

Supplemental Filing Addressing a Final SMD Rule

We find the Company's Application as filed does not address adequately several significant issues germane to our consideration of AEP-VA's proposed transfer of control of its transmission system to PJM. These issues include, but are not limited to, reliability of service, such as capacity and generation adequacy as well as required reserve margins; comprehensive examination of the costs and benefits of the Company's proposal; and implementation of LMP.²⁰ Therefore, we direct the Company to supplement its filing as soon as practicable, but no later than 90 days, after a final rule is issued in the SMD proceeding to fully address each of these issues. Within 30 days of a final SMD rule, AEP-VA shall advise the Commission as to when the Company intends to submit its supplement, or if the Company requires additional time to complete its filing. We encourage AEP-VA to supplement its application with regard to the SMD promptly so that a complete procedural schedule may be established in as timely a manner as possible and consideration of this Application can move forward. AEP-VA must completely address the issue of the provision of reliable electric service in order for the Commission to consider fully the reasonableness of the Application.

We have conducted a preliminary review of the PJM Expansion Filing under which AEP seeks to join PJM. The PJM Expansion Filing does not fully address capacity adequacy rules and notes that such rules are expected to be based on an existing PJM Reliability Assurance

²⁰ We expect that other related issues will arise during the course of our evaluation of the Company's request.

Agreement and are still being developed. The Application before us alludes to open questions regarding generation adequacy. Prefiled testimony submitted with the Application notes that PJM's required reserve margin differs from that currently required in AEP-VA's existing reliability region and further indicates that the reserve margin issue has not been resolved and continues to be addressed. Moreover, as proposed, the SMD contains requirements related to resource adequacy. As ultimately adopted, the FERC's SMD rule could impact the provision of reliable electric service in AEP-VA's service territory.

Our review and consideration of the Application as required by the Restructuring Act demands that these important issues be addressed. As such, we direct AEP-VA to supplement its Application as soon as practicable, but no later than 90 days, after a final SMD rule has been adopted. The Company shall more fully describe how its participation in PJM, as it may be modified under a final SMD Rule, will impact issues of: (1) resource adequacy; (2) pricing for and ancillary generation services; and (3) regional planning. AEP-VA must provide an analysis of these issues from the perspective of AEP, AEP-VA, other AEP corporate entities, AEP shareholders, AEP-VA's customers, and Virginia ratepayers as a whole.

Given the importance of RTEs to the development of competitive markets in Virginia and the far reaching implications of AEP-VA's proposal to participate in PJM as a transmission owner, AEP-VA must also provide a comprehensive and rigorous examination of the costs and benefits of the Company's proposed action. The SMD, as it may modify RTO formation, could have a profound impact on the costs and benefits of the Application. True cost and benefit analysis requires consideration of all of the costs and all of the benefits of the proposed change, as well as those of all viable and attainable alternatives.

Accordingly, we require the Company to develop, as soon as practicable, but no later than 90 days, after a final SMD rule has been adopted, a study of the costs, benefits, and resulting cash flows that would arise from the transfer of AEP-VA's transmission assets to PJM.²¹ The Company shall submit a report detailing the methodology, key assumptions, and results of the cost/benefit analysis from the perspective of AEP, AEP-VA, other AEP corporate entities, AEP shareholders, AEP-VA's customers, and Virginia ratepayers as a whole.

We expect the cost/benefit analysis to include at a minimum an examination of: (1) how participation in PJM would impact AEP-VA's fuel factor during the capped rate period; (2) market prices for generation as compared to current cost of service based generation pricing; (3) transmission rates for the recovery of embedded transmission costs; (4) transmission congestion costs incurred under the LMP construct; and (5) the availability and effectiveness of transmission rights for "hedging" against transmission congestion charges. The study also should include a sensitivity analysis to evaluate and identify critical assumptions including, but not limited to, the following: (1) differing load forecasts; (2) differing levels of transmission congestion and associated transmission rights; (3) abnormal vs. normal weather; (4) differing unit outage assumptions; and (5) differing fuel cost projections (higher or lower gas costs vs. coal costs, for example). Finally, the study should include a discussion of how the completion of the planned Wyoming to Jackson's Ferry 765 kV line might impact study results.

As noted, AEP-VA shall be required to examine the transmission congestion costs incurred under LMP. To evaluate the Application properly, a complete analysis of the

²¹ An examination of the costs and benefits of AEP-VA's proposal as directed by this Order is consistent with the Restructuring Act which requires that the transfer of control by an incumbent electric utility to an RTE promote the public interest. We note that HB 2453, which is awaiting action by the Governor, amends the Restructuring Act to explicitly require that any request to the Commission for approval of transfer of ownership or control of or responsibility for transmission facilities include a study of the comparative costs and benefits of such transfer that analyzes the economic effects of the transfer on consumers, including the effects of transmission congestion costs.

implementation of the LMP-based congestion management regime, as determined by any final SMD rule adopted by the FERC, into the Company's system is also needed. Accordingly, we require AEP-VA to provide an analysis, as soon as practicable, but no later than 90 days, after a final SMD rule has been issued, that includes, but is not limited to: (1) an estimate of the possible congestion costs that load serving entities within AEP-VA's service area might incur if LMP is implemented; (2) which facilities, including which lower voltage transmission facilities, would be subject to LMP-based congestion pricing; (3) the potential effect of LMP on wholesale power costs; and (4) a study of any specific Financial Transmission Rights ("FTRs") that would be made available to the Company to enable it to hedge such congestion costs. As with all presentations directed by this Order, this study must show the results from the perspectives of AEP, AEP-VA, other AEP corporate entities, AEP shareholders, AEP-VA's customers, and Virginia ratepayers as a whole.

Furthermore, the Company's affiliation with AEP and other AEP companies and the associated cost and revenue allocations add greater complexity to the examination of AEP-VA's proposed participation in PJM and likely will be affected by the SMD. PJM's LMP pricing and assignment of associated transmission rights could give rise to new allocations and new questions. For example, will transmission rights first be assigned to AEP and then allocated by AEP to the member companies, or will such rights be allocated by PJM directly to the member companies? Will the assignment of transmission rights be consistent with the incurrence of congestion costs? Will congestion associated with service in Virginia be assigned to Virginia or allocated across a broader region? Will additional regulatory approvals of inter-company agreements or modifications be necessary? Such questions have a bearing on our examination of the Application and should, therefore, be answered. Accordingly, we direct the Company, as

soon as practicable, but no later than 90 days, after a final SMD rule is promulgated, to supplement its Application to identify and discuss, from the perspectives of AEP, AEP-VA, other AEP corporate entities, AEP shareholders, AEP-VA's customers, and Virginia ratepayers as a whole, various cost and revenue allocations and other inter-company arrangements that could be created or impacted by the Company's membership in PJM.

Accordingly, IT IS ORDERED THAT:

(1) AEP-VA is hereby granted leave to file its Application, in lieu of the filing previously submitted by the Company on October 16, 2000.

(2) The Company's request for a waiver of 5 VAC 5-20-150 of the Procedural Rules is hereby granted in part. All parties shall be provided copies of any CDs filed by the Company in this proceeding. Parties that do not have access to a computer or a CD-compatible computer shall be provided a hard copy of all documents contained on any CD filed with the Commission.

(3) On or before April 15, 2003, AEP-VA shall file with the Clerk of the Commission one (1) hard copy of the compliance and tariff filings that PJM was directed to submit to the FERC by the FERC's December 20, 2002, order in the PJM RTO Filing. AEP-VA shall also submit to the Clerk of the Commission an original and fifteen (15) copies of a supplement addressing the impact of those compliance and tariff filings on its Application. These filings shall be made with Joel H. Peck, Clerk, State Corporation Commission, Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Electronic copies shall be provided simultaneously to the Staff of the Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting, as well as to the Office of General Counsel. Electronic copies, or hard copies if specified, shall also be provided simultaneously to other parties.

(4) The Company's request for a waiver of 5 VAC 5-320-10 11 of the RTE Rules is hereby denied. In addition to the requirement in Ordering Paragraph (3) above, AEP-VA shall file with the Clerk of the Commission one (1) hard copy of any filings with the FERC on behalf of AEP or by PJM and related orders issued by the FERC after December 20, 2003, in any FERC docket that affects AEP-VA's request to transfer its transmission system to PJM. Those filings made and orders issued prior to the date of this Order, along with a supplement to the Application describing their effect on the Company's proposed participation with PJM, shall be filed on or before April 15, 2003. Those documents filed or issued after the date of this Order and a supplement to the Application shall be filed within 7 days of their submission to, or issuance by, the FERC. Copies shall simultaneously be served on the Staff and other parties to this proceeding as provided in Ordering Paragraph (3) above.

(5) On or before April 15, 2003, AEP-VA shall file with the Clerk of the Commission an original and fifteen (15) copies of a supplement containing the information discussed in this Order as required by 20 VAC 5-320-100 4 g and h and 20 VAC 5-320-100 9 of the RTE Rules. A copy of this supplement shall simultaneously be served on the Staff and other parties to this proceeding as provided in Ordering Paragraph (3) above.

(6) No later than 90 days after the FERC's adoption of a final rule pertaining to SMD, AEP-VA shall file with the Clerk of the Commission a supplement including all supplemental testimony, analyses, reports, and other material as described herein related to the impact of the SMD on its application to join PJM. This supplement shall address all issues related to the SMD as set forth in this Order. Within 30 days of a final SMD rule, AEP-VA shall file with the Clerk of the Commission a notice advising the Commission as to when the Company intends to submit its supplement, or if the Company requires additional time to complete its supplement. A copy of

the supplement and the notice shall simultaneously be served on the Staff and other parties to this proceeding as provided in Ordering Paragraph (3) above.

(7) Upon written request received by its counsel, AEP-VA promptly shall provide a copy of its Application to the requesting party. Written requests shall be made to Anthony Gambardella, Woods, Rogers & Hazlegrove, P.L.C., 823 East Main Street, Suite 1200, Richmond, Virginia 23219. Interested persons may also review a copy of the Application and other materials filed in this docket in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday.

(8) On or before April 15, 2003, AEP-VA shall mail a copy of its Application and this Order by personal delivery or by first-class mail, postage prepaid to the chairman of the board of supervisors and county attorney of each county and upon the mayor or manager of every city and town (or upon equivalent officials in counties, towns, and cities having alternate forms of government) in which the Company provides service. Service shall be made to the customary place of business or residence of the person served.

(9) On or before April 15, 2003, AEP-VA shall complete publication of the following notice as display advertising (not classified) twice in newspapers of general circulation throughout the Company's service territories within the Commonwealth of Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION
BY APPALACHIAN POWER COMPANY D/B/A
AMERICAN ELECTRIC POWER – VIRGINIA,
FOR APPROVAL OF A PLAN
TO TRANSFER CONTROL OF CERTAIN
TRANSMISSION FACILITIES TO A
REGIONAL TRANSMISSION ENTITY
CASE NO. PUE-2000-00550

On December 19, 2002, Appalachian Power Company d/b/a American Electric Power-Virginia ("AEP-VA" or "Company") filed with the State Corporation Commission ("Commission") an application requesting approval to transfer functional control of its transmission facilities to a regional transmission entity ("RTE"). This application is to be considered pursuant to the Virginia Electric Utility Restructuring Act (the "Restructuring Act"), Chapter 23 (§ 56- 576 et seq.) of Title 56 of the Code of Virginia ("Code") and 20 VAC 5-320-10 et seq. of the Commission's Regulations Governing Transfer of Transmission Assets to Regional Transmission Entities (the "RTE Rules").

AEP-VA seeks approval for the transfer of control of its transmission facilities to PJM Interconnection, LLC ("PJM"). The December 19, 2002, application will replace the application to join the Alliance RTO the Company previously filed with the Commission on October 16, 2000. The Alliance RTO was disapproved by the Federal Energy Regulatory Commission (the "FERC") on December 21, 2001.

The Commission's Order for Notice directs AEP-VA to file, on or before April 15, 2003, a supplement to its application to provide additional information regarding certain proceedings pending at the FERC, as well compliance with the RTE Rules. The Company is also directed to address the effect of the FERC's proposal to establish a national Standard Market Design ("SMD") for wholesale electricity markets ("SMD NOPR"). The SMD NOPR envisions that Independent Transmission Providers will control and operate transmission assets and administer day-ahead and real-time energy and ancillary services markets which will utilize Locational Marginal Pricing. AEP-VA must file a supplement to address all issues related to the SMD as set forth in the Commission's Order for Notice and Hearing no later than 90 days after the FERC adopts such a final rule. Once the Company files its supplement with regard to a final SMD rule, the Commission will then establish a complete procedural schedule including a public hearing in this matter.

Interested persons should obtain a copy of the application and the Commission's Order for Notice issued in this matter for more information pertaining to the Company's proposed plan to transfer control of its transmission assets to PJM, as well as details on participation in this proceeding as a respondent. Copies of the application are available through written request to counsel for AEP-VA, Anthony Gambardella, Woods, Rogers & Hazlegrove, P.L.C., 823 East Main Street, Suite 1200, Richmond, Virginia 23219. Interested persons may also review a copy of the application in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. A copy of the Commission's Order for Notice issued in this proceeding may be obtained on the Commission's website, www.state.va.us/scc/caseinfo/orders.htm.

Interested persons are encouraged to become parties of record by filing a notice of participation. The Commission does not anticipate that further public notices in this matter will be published. Further scheduling and other procedural orders will only be served on parties of record.

On or before June 2, 2003, any interested person, who has not previously filed a notice of participation as a respondent in this proceeding, may file an original and fifteen (15) copies of a notice of participation with the Clerk of the Commission c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. The notice of participation shall refer to Case No. PUE-2000-00550 and shall simultaneously be served on counsel for AEP-VA at the address set forth above.

APPALACHIAN POWER COMPANY
D/B/A AMERICAN ELECTRIC POWER-VIRGINIA

(10) On or before May 5, 2003, AEP-VA shall file with the Clerk of the Commission proof of the publication and service ordered herein.

(11) On or before June 2, 2003, any interested person, who has not previously filed a notice of participation as a respondent in this proceeding, may file an original and fifteen (15) copies of a notice of participation with the Clerk of the Commission at the address set forth in Ordering Paragraph (3) above. Any notice of participation shall set forth a precise statement of

the interest of the respondent. A copy shall simultaneously be served on Counsel for AEP-VA at the address set forth in Ordering Paragraph (7) above. Respondents shall refer in all of their filed papers to Case No. PUE-2000-00550.

(12) Within five (5) business days of receipt of a notice of participation as a respondent, counsel for AEP-VA shall serve upon such respondent a copy of the Application and all accompanying materials. Counsel for AEP-VA shall serve a copy of all additional materials subsequently filed with the Commission pursuant to this Order upon each respondent simultaneously at the time of filing with the Commission.

(13) Counsel for AEP-VA shall forthwith serve a copy of its Application and all accompanying materials upon all persons already parties to this proceeding, unless these materials have already been provided to the respondent. Counsel for AEP-VA shall serve a copy of all additional materials subsequently filed with the Commission pursuant to this Order upon these parties simultaneously at the time of filing with the Commission.

(14) AEP-VA and all respondents shall respond to written interrogatories within ten (10) calendar days after receipt of the same. Except as modified above, discovery shall be in accordance with the Commission's Rules of Practice and Procedure.

(15) This matter is continued for further order of the Commission.